CONSUMER GOODS & RETAIL

I. MARKET OVERVIEW

The last three years saw a significant number of new foreign retailers in the Philippine market and 2014 served as the banner year with at least 45 new brands having entered the Philippines, which is home to a number of the world's largest shopping malls. Retail sales growth is expected to surpass 10% per year over the next three years, mainly owing to increasing domestic disposable incomes and driving sales in nonessential items such as apparel and luxury goods.

The retail industry is set to become a 'hot spot' for international and domestic retail investments due to continuous economic growth coupled with a steady rise in consumer spending and a growing middle-class.

Projected retail sales are expected to reach around €3 billion by 2016 and almost €4 billion by 2017.

One important characteristic of the consumer goods and retail market in the Philippines is that the domestic private sector is predominantly comprised of micro and small enterprises (including 'sari-sari' stores or small street-shops).

Roughly 99% of establishments in the Philippines are MSMEs, while less than 1% are comprised of large enterprises:

- 91% (743 250) are microenterprises,
- 8,6% (70 222) are comprised of small firms,
- Less than 1% (3 287) are made up of medium- and large-sized companies.

Approximately half of the total numbers of establishments are in wholesale and retail trade.

II. MAIN LEGISLATIVE FRAMEWORK

The state enacted the Retail Trade Liberalization Act of 2000 in a bid to attract more foreign retailers and diversify the consumer choices of Filipinos. This law allows foreign retailers to conduct business and fully own enterprises as long as they meet certain capitalization requirements, segmented into different categories:

- Full foreign ownership is allowed only for retail firms capitalized at €2,24 million or more, or at least €0,22 million per store for those specializing in high-end or luxury products.
- The parent company of the foreign retailer bringing in investments must have a net worth of

over €179,42 million.

- The retailer must own at least five retail stores elsewhere or at least one outlet with capitalization of €22,43 million or more.
- Foreign retailers are not allowed to engage in trade outside their accredited stores.
- Local content requirements are 10% for luxury goods specialty store and at least 30% for other goods.
- Retail ownership exceeding 80% of equity is required to offer a minimum of 30% of its shares to local investors within 8 years of the start of operations.

III. MAJOR OPPORTUNITIES FOR EU BUSINESSES

Metro Manila shopping mall stock currently stands at 6,5 million sq. m. and could expand to 7 million sq. m. by 2017 as new shopping malls are being constructed within upcoming mixed-use districts in the metropolis. The Philippines also has one of the most competitive retail rents across the globe. The 2014 Main Streets Across the World publication ranked the Philippines as the 62nd most expensive retail location in the world. This competitive rent provides additional incentive for prospective retailers to enter the market.

The expansion in the ranks of the middle class, and their exposure to Western consumer culture and trends, has bolstered demand for European retailers as consumer demand is on a constant rise.

Recent economic updates have predicted that the Filipino purchasing power will increase over the next few years. The Philippines is in the wake of becoming a retail hub in investments and sales as the economy is largely driven by consumption.

Growth is spreading beyond the capital of Manila to other regions such as Southern Tagalog, Central Visayas, Western Visayas, Southern Mindanao, and Central Luzon.

Cebu, Davao, Cavite, and Pampanga have lower per capita retail floor space than Manila, opening up for more EU business involvement and investment opportunities for developers and retailers outside the capital, as rising wages and disposable incomes translate into sales potential.

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